

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

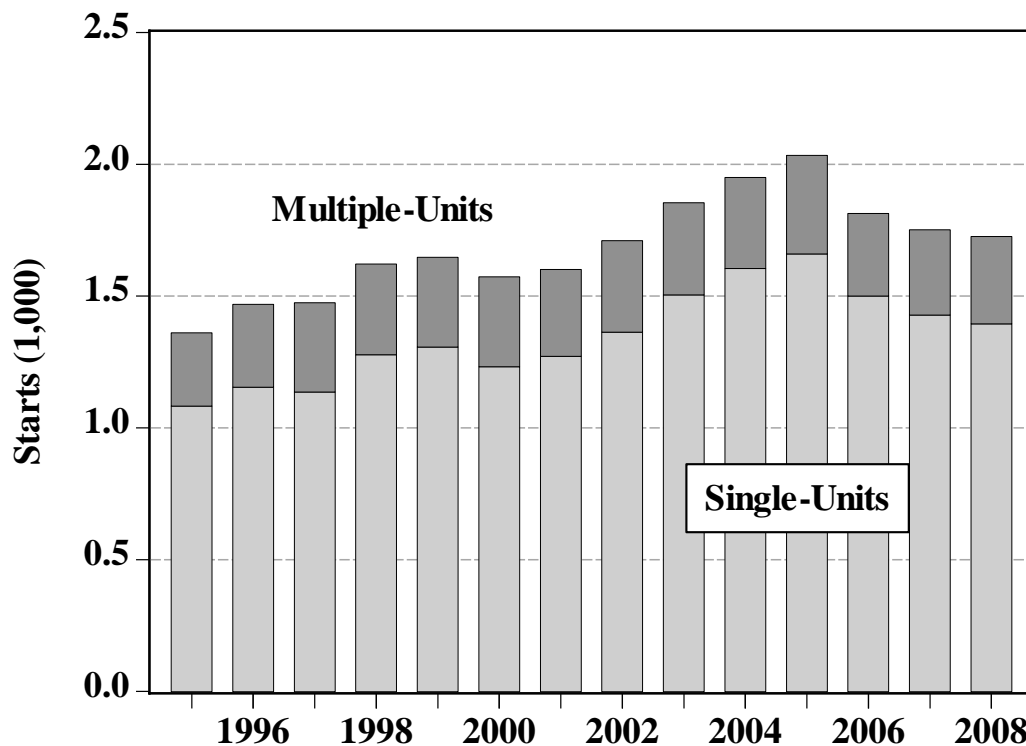
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- Forecast 2005-2008
- IT Investment: Will the Glory Days Ever Return?
- Alternative Forecasts

## U.S. Housing Starts



Source: Global Insight

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**IDAHO  
ECONOMIC  
FORECAST  
2005 - 2008**

State of Idaho  
**DIRK KEMPTHORNE**  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the June 2005 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the March 2005 Global Insight baseline national forecast.

This *Forecast's* cover illustrates what is expected to happen to the nation's red-hot housing sector over the next few years. Strong growth in recent years has led to speculation that a "housing bubble" has formed, and this bubble could burst in the near future. At this time it appears the housing sector will not collapse, but it will instead retreat gradually from its recent apex. As the chart shows, U.S. housing starts are expected to peak at about 2 million units this year, decline to 1.8 million units next year, and fall to about 1.7 million units in both 2007 and 2008.

## FEATURE

Business spending on computers, communications equipment, and software has featured prominently in the ups and downs of U.S. economic growth over the last decade. While the growth in spending on these items has improved during the recovery and expansion, it has not regained the rapid pace it enjoyed in the late 1990s. This issue's feature article explores whether spending on these goods can accelerate to its previous speed. Fittingly, the article is entitled, "IT Investment: Will the Glory Days Ever Return?" The article is authored by Mark Doms, who is a Senior Economist with the San Francisco Federal Reserve Bank.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1991 to 2008 and for every quarter from 2002 through 2007. The solution of the Idaho Economic Model (IEM) for this forecast begins with the second quarter of 2005.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The Idaho Department of Commerce and Labor provided the historical Idaho nonfarm employment data appearing in this forecast. The Idaho Division of Financial Management (DFM) has seasonally adjusted the data. The data consists of final employment estimates through the fourth quarter of 2004 and preliminary data for the first quarter of 2005. The historical data shows Idaho nonfarm employment was 594,479 in the third quarter of 2004 and 597,762 in the first quarter of 2005. Both were much higher than had been forecast in April 2005. Specifically, actual nonfarm employment in last year's fourth quarter was about 2,900 higher than the projected amount of 591,575. Actual nonfarm employment in this year's first quarter was about 4,200 above the previous forecast of 593,524.

The U.S. Department of Commerce's Bureau of Economic Analysis (BEA) has accelerated its state quarterly personal income releases by a month. This move has allowed DFM to incorporate more up-to-



date historical personal income data into the forecast. In the past, these estimates were released in January, April, July, and October of each year. Under this schedule the income data were nearly out-of-date when a forecast was produced. For example, the April *Idaho Economic Forecast* traditionally used January personal income data that was nearly three months old. In late April, the BEA would release its next round of estimates. As a result, the income data published by DFM in its April *Forecast* was soon out-of-date.

Under the new schedule BEA releases its state quarterly personal income numbers in March, June, September, and December. This schedule allows DFM to incorporate March data in the April *Forecast*, June data in the July *Forecast*, and September data in the October *Forecast*. As a result, the income data will be barely a month old when the *Idaho Economic Forecast* is released, and it will not be updated for a couple of months. For example, the April *Idaho Economic Forecast* will now use the personal income data released in March, and not the January data. The one exception to the accelerated schedule is the January forecast. Because of scheduling restrictions, this forecast is completed in early December. The BEA releases the income numbers in late December, so they cannot be incorporated into this forecast. In its place, DFM plans to use BEA's September personal income estimates. While not perfect, it is the only viable option.

The tables in this forecast include BEA's June 2005 estimates of Idaho quarterly personal income through the first quarter of 2005. The BEA will release its next Idaho personal income estimates, which run through the second quarter of 2005, in late September 2005. The new data will be incorporated into the October 2005 *Idaho Economic Forecast*.

The *Idaho Economic Forecast* is available on the Internet at [http://dfm.idaho.gov/Publications/Econ\\_Publications.html](http://dfm.idaho.gov/Publications/Econ_Publications.html). Readers with any questions should contact Derek Santos at (208) 334-2906 or at [dsantos@dfm.idaho.gov](mailto:dsantos@dfm.idaho.gov).

## SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at  
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